XINYANG MAOJIAN GROUP LIMITED
信陽毛尖集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 362)

SUPPLEMENTAL ANNOUNCEMENT TO THE FINAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

References are made to the announcements of Xinyang Maojian Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 30 September 2020 (the "**Unaudited Results Announcement 2020**") and 30 October 2020 (the "**Audited Results Announcement 2020**", together with the Unaudited Results Announcement 2020, the "**Announcements**") in relation to the unaudited and audited consolidated results of the Group for the year ended 30 June 2020 (the "**Year**"), respectively, and the annual report of the Group for the Year (the "**Annual Report 2020**"). Terms used herein shall have the same meanings as defined in the Announcements and the Annual Report 2020 unless the context requires otherwise.

In addition to the information provided in the Announcements and the Annual Report 2020, the Board wishes to provide further information in relation to (i) the disclaimer of opinion (the "**Disclaimer of Opinion**") issued by the auditors of the Company, Elite Partners CPA Limited (the "**Auditors**"); and (ii) the impairment loss on construction in progress in the Group's heat and power segment of HK$77 million (the "**Impairment Loss**").

THE DISCLAIMER OF OPINION

Further to the information provided under the section headed "The Board's Response to the Disclaimer of Opinion" of the report of Directors and sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in the independent auditors' report of the Audited Results Announcement 2020 and the Annual Report 2020, further supplemental information in relation to the Disclaimer of Opinion is set out as follows:

Further details of the Disclaimer of Opinion

As noted in the Audited Results Announcement 2020 and the Annual Report 2020, the Auditors were of the view that they had not been provided with sufficient evidence to satisfy themselves as to the Group's ability to complete the transformation of the fixed assets from the production of calcium carbide to the production of high carbon ferromanganese (the "**Transformation**") and resume the suspended production line in accordance with the Group's expected timetable and budget as a result of the Group's availability for financing.

During the course of audit, the Auditors had requested the following information to satisfy themselves regarding the carrying value of certain fixed assets and related payments regarding the sale of the Group's calcium carbide segment (the "**Assets**"):

- a five-year forecast of the Group's calcium carbide segment (the "**Forecast**");
- assumptions and supporting documents in relation to the Forecast, including but not limited to, the basis of the forecasted revenue, cost of sales, expenses and gross profit margin;
- value-in-use calculations by an independent valuer; and
- subsequent utilization of the prepayments in relation to the calcium carbide segment.

The original schedule of the Transformation was expected to be completed during late February 2021 and the resumption of the production line was expected to commence in March 2021. However, as a result of the effects of COVID-19, the Group could not find the necessary funding for the implementation of the Transformation and the resumption of the production line was delayed. Accordingly, the Group was unable to provide the necessary supporting documents to support the assumptions used in the Forecast and show the Auditors that the Group had adequate funds to complete the Transformation and resume the suspended production line.

Action plan of the Group to address the Disclaimer of Opinion

It is expected that the total cost of the Transformation and the subsequent variable cost as a result of the Transformation would be approximately RMB80 million. In order to address the uncertainties which may cast doubt regarding the Group's ability to continue as a going concern, and with a view to removing the Disclaimer of Opinion, the Company has taken and intends to continue to implement the following measures:

(i) ***The extension of a loan of HK$35 million***

On 24 August 2020, the Group entered into an extension agreement with a financial institution to extend the repayment date of a loan of HK$35 million from 10 September 2020 to 10 September 2021.

(ii) ***The entering into of an equity transfer agreement to dispose of 40% of the equity interest in Mudanjiang Batter-Day Power Limited (the "Equity Disposal")***

On 4 September 2020, the Group entered into an equity transfer agreement in relation to the Equity Disposal, in which the consideration of RMB70 million shall be settled subject to the terms and conditions of the equity transfer agreement. As at the date of this announcement, the Equity Disposal had not been completed yet and the Company had received RMB25 million in consideration from the purchaser due to the effects of COVID-19.

Details of the Equity Disposal were disclosed in the announcements of the Company dated 4 September 2020 and 19 October 2020, respectively.

(iii) ***The issue of convertible bonds (the "Convertible Bonds")***

On 28 October 2020, the Company entered into conditional subscription agreements with six individual and corporate subscribers, pursuant to which the subscribers agreed to subscribe for the zero-coupon Convertible Bonds in the principal amount of HK$100 million, due on the third anniversary of the date of issue, and the issue of the Convertible Bonds was completed on 13 November 2020. The gross proceeds and net proceeds from the issue of the Convertible Bonds amounted to HK$100 million and approximately HK$97 million, respectively.

Details of the issue of Convertible Bonds were disclosed in the announcements of the Company dated 28 October 2020, 4 November 2020 and 13 November 2020, respectively.

(iv) Major transaction in relation to disposal of lands (the "Land Disposal")

On 28 December 2020, the Company entered into an agreement in relation to the Land Disposal of two pieces of idle lands located in the PRC, in which the consideration of RMB156.44 million shall be settled subject to the terms and conditions of the agreement. As at the date of this announcement, the Land Disposal had not been completed yet and the Company had received RMB8.5 million as deposit from the purchaser.

Details of the Land Disposal were disclosed in the announcements of the Company dated 28 December 2020 and 19 January 2021, respectively.

Further, the Group intends to dispose of (i) several idle right-of-use assets located in the PRC with a total market value of approximately HK$188 million; and (ii) a building located in Hong Kong with a market value of approximately HK$93 million, in early 2021.

After completing the abovementioned financing arrangements, the Directors are of the view, and the Auditors concur, that the Group will have sufficient funds for the Transformation and resume its production line by late February 2021. Subsequent to the Transformation and the resumption of its production line, the Group will be able to provide the necessary supporting documents to support the assumptions used in the Forecast, as the prepayments will become inventories and the Group will be able to generate sales and purchase orders through the sales of high carbon ferromanganese.

Accordingly, subject to the Group successfully executing the abovementioned financing activities, the Directors are of the view, and the audit committee of the Company (the "**Audit Committee**") and the Auditors concur, that the Disclaimer of Opinion would not recur in the next financial year as the assumptions used in the Forecast would satisfy the Auditors that the Group had adequate funds to complete the Transformation and resume the suspended production line in the coming financial year.

Valuation in relation to the recoverable amounts of the Assets

During the preparation of the Unaudited Results Announcement 2020, for the purpose of prudently assessing the impairment of the Group, the Company had engaged Ample Appraisal Limited ("**Ample**"), an independent valuer, to prepare a valuation to determine the recoverable amounts of the Assets.

The valuation in relation to the recoverable amounts of the Assets was carried out based on value-in-use calculations, which adopted cash flow projections covering a five-year period, based on financial budgets approved by the management with a discount rate of 13%. Cash flows beyond the five-year period were extrapolated with a growth rate of 3%. Other key assumptions for the value-in-use calculations were made in relation to the estimation of cash inflows/outflows, such as a gross profit margin of 22.5%.

Further information on the Audit Committee's view on the Disclaimer of Opinion

The Audit Committee had critically reviewed the major judgmental areas in relation to the Disclaimer of Opinion in estimating the recoverable amount of the Assets, including but not limited to the Forecast and its underlying assumptions, such as the basis of the forecasted revenue, cost of sales, expenses and gross profit margin.

In light of the above, the Audit Committee was of the view that the judgmental areas in relation to the Disclaimer of Opinion were fair and reasonable.

THE IMPAIRMENT LOSS

As set out in the Announcements and the Annual Report 2020, the Impairment Loss of property, plant and equipment of HK$77 million in relation to the construction in progress in the Group's heat and power segment was recorded for the Year.

Background and reasons for the Impairment Loss

During the preparation of the Unaudited Results Announcement 2020, for the purpose of prudently assessing the impairment of the Group, the Company had engaged Ample to prepare a valuation to determine the recoverable amount of the Equity Disposal. Based on the valuation report, the management of the Company were of the view that no impairment was necessary for the heat and power segment.

Nonetheless, during the course of audit in October 2020, the Auditors further reviewed the documentation in connection to the Equity Disposal, and were of the opinion that the consideration of the Equity Disposal had highlighted indicators of impairment of the cash-generating unit regarding the Equity Disposal (the "**CGU**"), which led the Auditors to take a more prudent approach in assessing the assumptions used in the valuation report.

Accordingly, the Impairment Loss in the amount of HK$77 million was recorded in the Audited Results Announcement 2020 and the Annual Report 2020, which was equivalent to the difference between the amount of value-in-use calculation and the net asset value of the CGU.

Valuation of the Impairment Loss

The valuation of the Impairment Loss was carried out based on value-in-use calculations, which adopted cash flow projections covering a five-year period based on financial budgets approved by the management of the Company with a discount rate of 12%. Cash flows beyond the five-year period were extrapolated with a growth rate of 3%. Other key assumptions for the value-in-use calculations were made in relation to the estimation of cash inflows/outflows, such as a gross profit margin which ranged from 32% to 37%.

During the course of audit, the Auditors advised that the assumptions used in the valuation of the Impairment Loss should have taken into account of the consideration of the Equity Disposal. Accordingly, the Company revised the revenue growth rate in the cash flow projections.

In light of the above and after discussing with Ample and the Auditors, the Board and the Audit Committee reviewed the method and basis of calculation of the Impairment Loss and considered it fair and reasonable.

The above information does not affect other information contained in the Announcements and the Annual Report 2020.

By order of the Board
Xinyang Maojian Group Limited
Chan Yuk Foebe
Chairman and Chief Executive Officer

Hong Kong, 26 January 2021

As at the date of this announcement, Ms. Chan Yuk Foebe, Mr. Gao Ran, Mr. Law Tze Ping Eric, Mr. Yu Defa and Mr. Chen Lei are the executive Directors and Mr. Ma Wing Yun Bryan, Mr. Tam Ching Ho and Mr. Hau Chi Kit are the independent non-executive Directors.